Discovery Target Retirement Date Fund

30 April 2025

Market context

April was dominated by volatility after the US announced sweeping new tariffs, triggering a sharp global sell-off across equities and bonds. President Trump's introduction of a 10% baseline tariff, rising to 145% on certain Chinese imports, reignited fears of a global trade war and a hard landing. Risk assets repriced abruptly, with implied equity and rate volatility hitting multi-year highs. The Fed's insistence on anchoring inflation expectations added to the unease.

Markets steadied mid-month after the US delayed some retaliatory measures by 90 days, Trump softened his tone, and policymakers reaffirmed their commitment to institutional stability. US macro data held up – helping to ease recession fears.

Growth assets posted mixed returns. Global equities achieved a modest gain, with emerging markets ahead of developed peers. US stocks tumbled over 10% in two days before rebounding strongly to end just 0.7% lower, led by the Magnificent 7. European equities held up better, buoyed by exporters and banks. EM equities gained slightly.

Defensive assets diverged: US treasury yields swung violently – the 30-year briefly touched 5% – before the curve retraced and the 10-year ended lower; meanwhile, European sovereigns rallied. Gold rose around 5%, hitting new all-time highs amid geopolitical tension, inflation concerns, and broad dollar weakness.
South African equities rebounded to close April in positive territory. Gold miners were among the standout performers as safe-haven demand continued to drive gold prices higher. On the political front, the budget dispute between the ANC and DA culminated in the Western Cape High Court ordering the suspension of National Treasury's proposed VAT hike. Finance Minister Enoch Godongwana is expected to present a revised fiscal framework towards the end of May. In other news, annual inflation surprised to the downside, easing to 2.7% in March and marking the lowest reading since June 2020.

Performance

The portfolio delivered a positive return in April. It was a strong month, with all asset classes contributing.

Key contributors:

- SA property holdings
- Gold ETF & gold equity holdings
- 'SA Inc.' names, with Clicks and Capitec, in particular, rallying on strong results and upbeat forecasts
- Gold stocks
- Naspers, supported by positive sentiment and strong momentum
- Global equities, particularly in communication services, industrials, utilities and defensive financials (including insurance holdings like Intact Financial and stock exchanges like the LSE)
- Rand weakness, which boosted offshore holdings

Key detractors:

- SA bonds, which delivered cash-like returns as longer-duration SA bonds struggled in April
- PGM stocks, which gave back earlier gains as investors took profits
- Chinese equities, which slipped on renewed tariff concerns after a strong Q1
- Healthcare names, where profit taking followed a period of resilient performance

We entered April with elevated cash holdings, having sold down risk ahead of the US's so-called 'liberation day' on 2 April, when the administration announced sweeping new tariffs. Markets reacted as expected, with an indiscriminate sell-off across equities. A week later, we began redeploying, taking advantage of dislocated pricing to top up several existing holdings, particularly in software, communication services and banks. Within local equities, we rotated into higher conviction holdings out of weaker ideas. There were no changes to our positioning in other asset classes.

Outlook and strategy

April was one of the most volatile months in recent memory, with markets flick-flacking between sharp selloffs and powerful rebounds in quick succession. Sentiment remains highly reactive – 'shoot first, ask questions later' is the order of the day. Even typically stable markets like currencies have been caught in the crosshairs.

The source of this volatility remains unchanged: global trade tensions alongside broader US uncertainty. The breadth and depth of US tariffs introduced on 2 April exceeded expectations, and while some measures have since been delayed, the uncertainty is dampening business confidence. What we need is for trade deals to be finalised quickly so companies can make capex decisions and adjust supply chains. The longer this drags on, the greater the risk to global growth. For now, companies with pricing power, margin resilience and flexible supply chains are best positioned.

The US Federal Reserve faces a difficult balancing act. Tariffs are creating stagflationary conditions, pressuring inflation while simultaneously slowing growth. This narrows the Fed's room to manoeuvre. Rate cuts remain possible if growth falls off sharply, but for now, the Fed is holding its ground and is in 'wait and see' mode. We're watching liquidity conditions and the policy environment closely.

Through our Compelling Forces lens, we see several signals pointing toward opportunity during April. Positioning has become extremely bearish, often a contrarian indicator. Valuations are more reasonable outside the US, especially in sectors less exposed to trade frictions, while fundamentals in these areas remain intact. These areas have been the focus of our recent additions.

In South Africa, the tariff dispute with the US has not been meaningfully resolved. While key exports, like PGMs, gold, coal, manganese and chrome have been excluded, others, like iron ore and diamonds, have been included. Some agricultural exports have received a temporary 90-day tariff reduction, but beyond that, there is still no indication of a broader resolution. The full impact on growth remains uncertain.

Domestically, the reversal of the VAT hike added to political tensions within the Government of National Unity and left a significant revenue gap. A revised budget is expected later in May. While the political environment remains tense, we don't expect these developments alone to trigger a major repricing in local bonds or the rand.

Against this backdrop, we continue to favour South African government bonds over global sovereigns. Stagflation risks, poor fiscal dynamics and overwhelming supply have distorted valuations in developed bond markets. In contrast, South African bonds still offer attractive real yields. We also maintain positions in gold ETFs, cash, and select equity holdings where valuations have become compelling, and fundamentals are intact.

We expect the coming months to be tricky. Pricing power will be critical as companies navigate margin compression and slowing demand. We're staying nimble—taking profits where markets overshoot and adding where dislocations create opportunity.

Volatility remains high, and visibility is low, but our discipline holds. We continue to act only when fundamentals shift, and valuations misprice that change. Conviction, for us, must be rooted in evidence, not prediction. In this uncertain environment, we remain grounded in our process: Compelling Forces, which focuses on fundamentals, valuation and market price behaviour.

